LASERS
Louisiana State Employees' Retirement System
8401 United Plaza Blvd. • Baton Rouge, LA 70809 Web: www.lasersonline.org
Mail: P.O. Box 44213 • Baton Rouge, LA 70804-4213 Phone: (toll-free) 1.800.256.3000 • (local) 225.922.0600

Times Picayune Report Response

The November 8 article in the *Times Picayune* by Richard Thompson, relative to pension shortfalls, contains both inaccurate and misleading information. The key points LASERS would like to address are as follows:

"For five years leading up to 2010, Louisiana did not pay its full way three times, according to a recent study by Pew Research Center." That statement is, at best, very misleading. In fact, in 1987 our state Constitution was amended to require that the pension system be actuarially sound. Since that time, Louisiana has, in fact, made the required employer contribution, as determined by the system's actuarial valuation. After the fiscal year ends, an actuarial analysis may determine that the state actually should have paid more or less of a contribution, depending on unforeseen changes that may have occurred during that prior year. When, after the fact, it is found that the state should have contributed more than was anticipated, the state has then made the additionally required payment, amortized over a five year period. In short, Louisiana funds 100 percent of the employer contribution rate and is required to do so both statutorily and by the Constitution, which constitutes a strong funding policy.

Interestingly, a recent PEW report also pointed out that Louisiana is, in fact, one of the top ten states for paying the actuarially required rate.

The *Picayune* article also states, "Many experts consider a public plan to be healthy if it's at least 80 percent funded." Actually, in July, the American Academy of Actuaries issued a brief entitled, "The 80% Pension Funding Standard Myth." The key points of that report are that no single level of funding should be identified as a defining line between a healthy and an unhealthy pension plan. Funded ratios are a point-in-time measurement. And pension plans should have the objective of accumulating assets equal to 100 percent of a relevant pension obligation.

Fortunately, Louisiana has established a payment plan for the debt that accumulated over decades. We have experienced an expected increasing UAL due to the back-loaded increasing payment schedule. Much like a mortgage, LASERS is finally approaching the point where the payment will be sufficient to start paying on the principle.

In fact, in 10 years, LASERS debt will be reduced by $1.5 billion and in 20 years will be reduced by nearly $4.5 billion.

When referring to pension reform, a couple of key facts are too often overlooked. The cost of the benefits is, in reality, modest. Louisiana is paying less than 7 percent of payroll for these accruing benefits; very comparable to what it would pay if the employees were in Social Security. The largest portion of the employer contribution is for the debt payment.

Significant pension reform has already been passed and implemented. The legislature began making these changes to LASERS benefit structure in 2005. Since that time, laws have been adopted that are expected to save over $800 million. These changes required hires after July 1, 2006 to work longer and pay more. Their benefit formula was changed and their eligibility to retire was restricted.

Keep in mind, state employees do not participate in Social Security. This is a significant factor to note with respect to the Cash Balance Plan that was adopted in the last legislative session. The IRS must determine whether this new plan meets the test for Social Security equivalence. If it does not, then Louisiana will be faced with an additional cost to enroll the affected employees into Social Security.

Cindy Rougeou,
LASERS Executive Director